

## Message Text

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C O N F I D E N T I A L MOSCOW 0394

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E.O. 11652: GDS

TAGS: ETRD UR US

SUBJECT: MIDDLE-LEVEL BUREAUCRATS REACT TO TRADE REFORM ACT

1. SUMMARY: WHILE VARIOUS STRAWS IN THE MOSCOW WIND POINT TO SOVIET REJECTION OF THE EXCHANGE OF DIPLOMATIC NOTES NECESSARY TO BRING THE 1972 TRADE AGREEMENT AND MFN FOR USSR INTO EFFECT, WE BELIEVE SOVIET LEADERSHIP MAY BE BROUGHT TO CONCLUDE THAT IF THEY CANNOT ACCEPT AMERICAN CONDITIONS FOR MFN AND ADDITIONAL EX-IM CREDITS, ON BALANCE THEIR INTERESTS ARE BEST SERVED BY LEAVING THE TRADE AND LEND-LEASE AGREEMENTS INTACT. FROM SOVIET VIEWPOINT, LATTER ACTION WOULD BE ENTIRELY PROPER IN VIEW OF U.S. INABILITY TO CARRY OUT PRECISE TERMS OF TRADE AGREEMENT REACHED IN OCTOBER 1972. FURTHER, IT WOULD LEAVE ALL OPTIONS OPEN, IT WOULD SIDESTEP QUESTIONS CONCERNING AUTHORITY FOR OPERATION OF THE SOVIET TRADE REPRESENTATION IN WASHINGTON AND WOULD AVOID JEOPARDIZING STATUS OF KAMA PURCHASING COMMISSION. SOVIETS MAY CALCULATE THAT U.S. WOULD ACQUIESCE IN THIS APPROACH IN ORDER PREVENT IMPEDIMENTS TO OPERATIONS OF EMBASSY'S COMMERCIAL OFFICE AND TO MOSCOW REPRESENTATIVE OFFICES OF AMERICAN COMPANIES. IN SOVIET EYES, DECLINING TO EXCHANGE NOTES MAY ALSO REPRESENT CLOSEST THING TO "NEUTRAL" RESPONSE, REJECTING FOREIGN ATTEMPTS TO INTERFERE IN SOVIET DOMESTIC AFFAIRS WITHOUT SCUTTling DETENTE AND LEAVING TO PRESIDENT AND SECRETARY BROAD LATITUDE FOR WORKING WITH NEW CONGRESS TO ACHIEVE MORE ACCEPTABLE MFN AND CREDIT TERMS IN FUTURE.  
END SUMMARY.

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2. IN COURSE OF ROUTINE EMBASSY CONTACT WITH SOVIET OFFICIALS

IN PAST TWO WEEKS, NO FIRM PATTERN HAS EMERGED IN SOVIET REACTION TO TRADE REFORM AND EX-IM AUTHORIZATION ACTS. EMBOFFS HAVE NOT RAISED THERE SUBJECTS BUT HAVE LISTENED TO REMARKS BY SEVERAL MIDDLE-LEVEL BUREAUCRATS. IN DIRECT CONVERSATIONS, MINISTRY OF FOREIGN AFFAIRS (MFA) AND MINISTRY OF FOREIGN TRADE (MFT) REPRESENTATIVES HAVE ALLUDED TO NEW LEGISLATION. WHILE CONTACTS IN MINISTRIES OF CIVIL AVIATION, COMMUNICATIONS, GA INDUSTRY, GEOLOGY, MERCHANT MARINE AND OIL/CHEMICAL MACHINE-BUILDING INDUSTRY HAVE NOT RAISED ANY SUBJECT ASSOCIATED WITH NEW LEGISLATION, OFFICIALS IN GOSPLAN AND MINISTRY OF TIMBER INDUSTRY TOOK INITIATIVE IN BRINGING UP RELATED QUESTIONS.

3. DURING MFA U.S. DIVISION RECEPTION FOR EMBASSY JAN 6 ONE YOUNG STAFF MEMBER VOLUNTEERED COMMENT THAT SOVIETS COULD NOT ACCEPT IMPROVED TRADE TIES ON CONDITIONS JUST IMPOSED BY CONGRESS AND THAT EX-IM LIMITATIONS ON LOANS CONSTITUTED "GROSS INSULT" TO U.S.S.R. IN BRIEF MEETING TO DISCUSS IMPENDING MOSCOW VISITS BY TREASURY ASSISTANT SECRETARY PARSKY AND BY MARKET RESEARCH GROUP FROM COMMERCE, ALBERT MEL'NIKOV, CHIEF OF U.S. DEPARTMENT OF MFT'S ADMINISTRATION FOR TRADE WITH COUNTRIES OF AMERICAS, REMARKED THAT WHILE MFT WOULD OF COURSE BE GLAD TO WELCOME VISITORS, CURRENT PROSPECTS FOR EXPANDED TRADE "ARE NOT BRIGHT," AND THAT MEL'NIKOV'S REGULAR CONSULTATIONS WITH REPRESENTATIVES OF THE FOREIGN TRADING ORGANZIATIONS INDICATED "NO INTEREST" IN PURCHASE FROM AMERICAN SOURCES.

4. DURING JAN 7 MEETING WITH COMMATT, CHIEF OF GOSPLAN OIL/GAS MAIN ADMINISTRATION P.P. GALONSKIY AND SENIOR EXPERT (ON RELATIONS WITH US) YU. BAZHENOV ASKED WHETHER PENDING US-SOVIET PROJECTS IN NATURAL GAS AREA COULD PROCEDE UNDER CONDITIONS CREATED BY NEW LEGISLATION. THEIR REMARKS INDICATED CLEARLY THAT GALONSKIY AND BAZHENOV WERE PARTICULARLY INTERESTED IN EX-IM BANK LEGISLATION RESTRICTIONS ON CREDITS FOR FOSSIL FUEL PROJECTS. IN MEETING JAN 9 WITH COMATT PRIOR TO DEPARTURE FOR U.S., DEPUTY MINISTER OF TIMBER AND WOOD-PROCESSING INDUSTRY V.F. ZARETSKIY BROUGHT UP TRADE REFORM ACT IN FRIENDLY, ALMOST JOCLAR MANNER. NOTING THAT SENATE HAD "CHEWED UP" ADMINISTRATION'S PROPOSED LEGISLATION, ZARETSKIY SAID BILL AS PASSED BY CONGRESS CREATED PROBLEM BUT ADDED THAT THIS WAS "AN INTERNAL MATTER FOR YOU." OTHERWISE ZARETSKIY WAS QUITE POSITIVE IN DISCUSSING CONFIDENTIAL

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POTENTIAL FOR DEVELOPMENT OF US-SOVIET TRADE. DURING ANOTHER CONVERSATION JAN 9, TEKHNOPROMIMPORT OFFICIAL SCHEDULED TO VISIT U.S. SHORTLY STATED FLATLY THAT SOVIETS PLAN BUY COMPLETE PLANT TO PRODUCE 10 MILLION SQUARE METERS OF ARTIFICIAL LEATHER PER YEAR FROM ONE OF COMPETING US COMPANIES. SOVIETS ALSO SEEM TO BE MOVING AHEAD ON PROPOSED DEAL WITH GOULD INC. FOR ENGINE BEARING PLANT WORTH \$47 MILLION, AND STANKOIMPORT OFFICIAL INQUIRED DEC 31 WHETHER EX-IM FINANCING WOULD BE AVAILABLE FOR

THIS PROJECT. FINALLY, DURING JAN 9 MEETING WITH COMATT, MINISTRY OF GEOLOGY OFFICIALS PRESENTED LENGTHY LIST OF EQUIPMENT WHICH THEY STATED THEY WERE INTERESTED IN ACQUIRING FROM AMERICAN SOURCES.

5. COMING FROM NORMALLY WELL-INFORMED BUREAUCRATS SENSITIVE TO CURRENT FOREIGN POLICY LINES, THESE VARIOUS REMARKS SUGGEST THAT THE SOVIET LEADERSHIP MAY NOT YET HAVE PROVIDED FIRM GUIDANCE ON OFFICIAL ATTITUDES TOWARD TRADE REFORM AND EX-IM LEGISLATION. BY CONTRAST WITH THESE UNCOORDINATED REMARKS IN PRIVATE CONVERSATIONS, LOCAL MEDIA COMMENT HAS CONTINUED TO INCLUDE OCCASIONAL POTSHOTS AT TRADE REFORM ACT (SUCH AS JAN 9 PRAVDA PIECE, "ACT OF ECONOMIC AGGRESSION," SELECTIVELY QUOTING VENEZUELAN PRESIDENT PEREZ, EQUADORIAN PAPER COMMERCIO, PERUVIAN FOREIGN AFFAIRS MINISTRY STATEMENT AND BRAZILIAN INDUSTRY AND COMMERCE MINISTER GOMES TO EFFECT THAT TRADE REFORM ACT CONSTITUTES INTERFERENCE IN DOMESTIC ECONOMIC DEVELOPMENT OF THOSE COUNTRIES), AND AT LEAST ONE MOSCOW PUBLIC LECTURER HAS DESCRIBED NEW EX-IM SUBCEILING FOR USSR AS "MEAGER," CLAIMED PRESIDENT NIXON HAD PROMISED MFN AND MAJOR CREDITS IN RETURN FOR LEND-LEASE SETTLEMENT AND CONCLUDED THAT USSR WILL NOT TOLERATE INTERFERENCE IN DOMESTIC AFFAIRS (SEE REFTEL).

6. COMMENT: ON BASIS CONTACTS DESCRIBED ABOVE PLUS OUR READING OF CURRENT SITUATION, EMBASSY FINDS IT POSSIBLE THAT SOVIET LEADERSHIP MAY NOT YET HAVE REACHED FINAL DECISION ON OFFICIAL REACTION TO NEW LEGISLATION. SOVIETS ARE SURELY CONSIDERING THAT FROM LEGAL POINT OF VIEW, 1972 TRADE AGREEMENT CONSTITUTES AUTHORITY FOR ESTABLISHMENT OF SOVIET TRADE REPRESENTATION IN WASHINGTON AND IS CENTRAL DOCUMENT IN EXCHANGE OF CORRESPONDENCE INCLUDING PETERSON-PATOLICHEV LETTERS WHICH AUTHORIZED CREATION OF KAMA RIVER TEMPORARY PURCHASING COMMISSION. IT SEEMS LIKELY THAT SOVIETS, UPON

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REFLECTION, WILL HESITATE TO TAKE ACTION WHICH COULD UNDERMINE OPERATION OF THESE OFFICES AND POSSIBLY CALL THEIR CONTINUED EXISTENCE INTO QUESTION. MOSCOW MAY WELL ANTICIPATE ALSO THAT WASHINGTON WOULD BE SIMILARLY RELUCTANT SEE STEPS TAKEN WHICH COULD LEAD TO CURTAILMENT OF ACTIVITIES OF EMBASSY COMMERCIAL OFFICE AS WELL AS IMPEDIMENT TO WORK OF RESIDENT AMERICAN COMPANY REPRESENTATIVES HERE, BOTH SIMILARLY ASSOCIATED WITH TRADE AGREEMENT.

7. IN SUM, WE SUSPECT THAT CERTAIN SENTIMENT MAY EXIST IN SOVIET LEADERSHIP TO UNDERLINE DISSATISFACTION WITH RESTRICTIONS IN TRADE ACT AND EX-IM LEGISLATION BY DENOUNCING 1972 TRADE AND LEND-LEASE AGREEMENTS. WE BELIEVE, HOWEVER, THAT ON REFLECTION LEADERSHIP MAY COME TO ACCEPT VIEW THAT CONCOMITANT COST OF THIS APPROACH IS

EXCESSIVELY HIGH, BOTH IN TERMS OF IMPACT ON OVERALL  
RELATIONSHIP AND ON STRICTLY ECONOMIC GROUNDS. WHILE OPTIMUM  
OUTCOME FROM OUR POINT OF VIEW CONTINUES TO BE NEGOTIATION  
OF EXCHANGE OF NOTES WHICH WOULD BRING 1972 TRADE  
AGREEMENT INTO FORCE, LEAST DAMAGING SOLUTION ACCEPTABLE  
TO SOVIETS MAY BE TO LEAVE 1972 TRADE AND LEND LEASE AGREEMENTS  
INTACT BUT TO DELAY BRINGING FORMER INTO FORCE UNTIL MORE  
PALATABLE CONDITIONS FOR MFN EXTENSION CAN BE OFFERED.  
(UNDER LEND-LEASE AGREEMENT SOVIETS OF COURSE ARE NOT OBLIGATED  
TO MAKE PAYMENTS BEYOND THAT DUE JULY 1, 1975, UNTIL MFN IS  
GRANTED; LEAVING IT IN FORCE WOULD NOT ONLY AVOID NEGATIVE  
POLITICAL IMPACT OF RENUNCIATION, BUT ALSO POTENTIAL  
TECHNICAL AND LEGAL PROBLEMS SUCH AS JOHNSON ACT SANCTIONS.)  
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